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May 1971

# tax bulletin

A Publication of the <sup>Ministry</sup> Department of Revenue  
The Honourable Eric Winkler  
Ontario Minister of Revenue

Bulletin 71-2



The Frost Building, Queen's Park, Toronto

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Note: Every reader is reminded that much of the information in this Bulletin has been condensed from the Statutes and Regulations. For greater accuracy in specific applications, reference should be made to those sources.

# succession duty

The Honourable W. Darcy McKeough, Treasurer of Ontario and Minister of Economics, presented the 1971 Budget in the Legislative Assembly of Ontario on Monday, April 26th, 1971, and recommended the following changes in the Ontario Succession Duties Legislation in respect of deaths occurring after midnight April 26th, 1971.

## 1. Increase in Widows' and Widowers' Exemption

The exemption for widows and widowers will be increased from \$125,000 to \$250,000. The corresponding credit, when duty is payable, will be increased from \$11,500 to \$23,950.

## 2. Surtax

The existing surtax of 15 per cent will be eliminated for preferred beneficiaries, i.e. father, mother, husband, wife, child, grandchild, grandfather, grandmother, son-in-law and daughter-in-law.

## 3. Estates Valued up to 100,000 Will Not Be Subject to Duty Where Property Passes to Preferred Beneficiaries

No duty will be payable in an estate valued up to \$100,000 (instead of the present \$50,000), where such property passes to preferred beneficiaries.

## 4. Increase in Exemption for Non-Commutable Pensions and Annuities from the Current \$1,200 to \$10,000 in Aggregate

The exemption for non-commutable pensions, annuities or periodic payments effected in any manner other than by will or testamentary instrument and paid for by the deceased during his lifetime and paid to the spouse or certain other dependants will be increased from \$1,200 per annum to \$10,000 per annum in the aggregate.

### THE TAX REDUCTION IS REFLECTED BY THE FOLLOWING

The property passing outright to the widow or widower of the deceased

Value of property	Duty payable, death before April 27, 1971	Duty payable, death on or after April 27, 1971	Tax Reduction
\$150,000	\$ 3,112	\$ 0	\$ 3,112
200,000	9,568	0	9,568
300,000	23,000	6,050	16,950

The property passing outright to one adult son

Value of property	Duty payable, death before April 27, 1971	Duty payable, death on or after April 27, 1971	Tax Reduction
\$ 60,000	\$ 3,174	\$ 0	\$ 3,174
75,000	4,743	0	4,743
100,000	8,625	0	8,625

The proposed amendments will effectively eliminate succession duties on the vast majority of estates. A tax burden in the case of transfers to children and grandchildren, and particularly spouses, will be significantly reduced.

The Treasurer re-affirmed the policy that was formulated in 1969, that it is the intention of the government to relinquish the death duties field to the federal government in exchange for seventy-five percent of the revenues that accrue in Ontario from the full application of the federal Estate Tax Act.

The government decided not to eliminate the succession duties in a single step, and the Treasurer gave three sound reasons for such a gradual approach. First, there is the matter of revenue losses. Complete elimination of succession duties would entail a loss of revenues to the Province of more than \$25 million a year. Second, the continuation of Ontario suc-

cession duties, along with the one-half application of the federal estate tax, will result in lower total taxation in many instances than under the full application of the federal estate tax alone. Third, it is important to establish a connection between estate taxation and capital gains taxation. The Treasurer stated that the Ontario Government believes that death duties should be reduced as capital gains taxation comes into effect. The federal government, by contrast, has not recognized the interdependence of these two taxes on wealth, and the consequent need to make compensating reductions in estate taxes when a capital gains tax is introduced. It is prudent, therefore, for the Province to retain some presence in the succession duty field, until the government can see what form of capital gains tax is finally legislated by the federal government, and to ensure that the Province participates fairly in the revenues.

# corporations tax

## NEW TAX RETURN FORMS CT23 AND CT8 SIMPLIFICATION—REFUNDS

Tax returns required to be filed under The Corporations Tax Act have been simplified and consolidated whereby, amongst other things, the number of tax return forms has been reduced from 4 to 2 and certain items have been introduced that will assist in the administration of the Act and expedite early refunds with respect to the carry back of business losses. It is important, therefore, that the items "taxable loss" and "total assets per Balance Sheet" appearing on page 1 should be completed.

Previously, corporations such as insurance and mining filed separate returns. New form CT23 now covers mining corporations and ordinary corporations. New form CT8 is a combined form covering other corporations such as insurance, banks, railways, telegraph and express companies.

## CHANGES OF ADDRESS

As at the end of March 1971, the number of corporations filing returns under The Corporations Tax Act exceeded 100,000. This total continues to grow at the rate of 8 per cent per annum.

The Corporations Tax Branch one way or another now logs over 35,000 address changes each year. The procedures for dealing with these changes could be simplified and made even more efficient if taxpayers would use, as a vehicle for recording changes in address, the various returns and remittance forms required to be delivered to the Branch from time to time or, alternatively, advise the Branch as soon as possible when a change of address occurs or is about to occur.

## FORGIVABLE LOANS

Where a forgivable loan has been made by The Ontario Development Corporation, the capital cost of the property for which the loan was made shall be deemed to be the capital

cost thereof minus the amount of the loan. Thus, capital cost allowance may be claimed only on that part of the capital cost of the property which is in excess of the amount of the loan.

The above complements and adds to information previously outlined in Tax Bulletin 71-1 and should be read in conjunction with it.

## PAYMENTS FOR SECURITY TRANSFER TAX

As a convenience to corporations, without the necessity of requiring a separate return, an integrated computer system has enabled basic security transfer tax information to be extracted from corporations tax returns for the Retail Sales Tax Branch which administers The Security Transfer Tax Act.

Please note, however, that any payments due under The Security Transfer Tax Act must be remitted directly to the Retail Sales Tax Branch and not to the Corporations Tax Branch. The payments should be identified as Security Transfer Tax payments; otherwise, payments may be credited to your corporations tax account in error.

For information regarding The Security Transfer Tax Act, write to the Retail Sales Tax Branch, Queen's Park, Toronto or telephone that office at number 365-1774.

## CORPORATE PARTNERS

Corporations are reminded that where they have entered into a partnership or joint venture agreement, the complete partnership or joint venture financial statements must be included with their returns. In addition, each corporate partner must include in the computation of paid-up capital, its share of those liabilities of the partnership or joint venture that would otherwise be included in the paid-up capital of the corporation. For example, a mortgage liability of the partnership must be attributed to each partner in accordance with its participation in the profits or losses of the partnership.

# retail sales tax

In this issue the Bulletin Editor has foregone the usual question and answer technique in order to draw attention to those items which the Retail Sales Tax auditors are finding to be the most misunderstood regulations.

## RESTAURANTS

In Tax Bulletin #70-1 published in February, 1970 the following items were mentioned:

### PREPARED MEALS

Tax at the rate of 10% applies to each meal sold for more than \$2.50. Each meal of \$2.50 or less is exempt. There are two different ways to bill the customer which are acceptable in determining and recording the tax on individual meals.

- Each meal, of course, may be billed by separate check.
- More than one meal may be recorded on the same check.

When this is done the food consumed by each person must be shown separately from the food consumed by the others so that each person's meal can be clearly identified and tax applied where the charge to an individual exceeds \$2.50.

If you, the vendor, do not make sure the billing is properly carried out and tax correctly applied, you may have to pay a substantial assessment when you are audited.

### OTHER THINGS TO NOTE

1. When prices of separate items comprising a meal are rung up on a cash register, without the issue of a bill (for example, in a cafeteria), a total must be taken for each meal and tax applied on any total over \$2.50.

2. A vendor may not "average" a bill. For example, a bill totalling \$10 for meals served to four people is not necessarily tax exempt because it could be made up of two meals at \$3 (each of them taxable) and two meals at \$2 (each exempt). Many restauranteurs have either misunderstood the instructions or have paid no attention to them. This has been unfortunate because assessments have had to be levied.

We must repeat—a vendor may not "average" a bill. The mere notation on a bill of the number of persons served does not relieve the customer of paying tax if the bill totals more than \$2.50, nor does it relieve the restaurant operator of liability for tax he should have charged on such a bill.

Again, the only acceptable billing methods are individual billing or the segregation of each meal in its entirety if one check is used to bill more than 1 customer.

### SOFT DRINKS SOLD WITH TAKE-OUT MEALS

We are still finding operators of take-out restaurants who are not charging tax correctly on soft drinks. Soft drinks are taxable when sold in total for more than 20¢ whether with a

take-out order or by themselves. For example, a billing of a take-out order could be as follows:

5 burgers	@ 69¢	= \$3.45
5 chips	@ 20¢	= 1.00
5 pops	@ 15¢	= .75
		\$5.20
TAX (5% of 75¢)		.04
		<u>\$5.24</u>

The pop at 75¢ must be taxed or you will be assessed on audit. The customer should pay it, why let it come out of your pocket!

### TOURIST CAMP OPERATORS

Tourist camp operators make a variety of uses of boats and motors. As of May 15, 1971, retail sales tax is to be accounted for in the following manner:

If a boat or motor is purchased by a camp operator who may rent them either with a guide or without a guide, he may purchase both without paying sales tax by providing his supplier with a purchase exemption certificate.

Then, if no guide is supplied, he must collect sales tax on the full rental charge for the boat and motor, for instance,

Boat (per day)	\$4.00
10 HP Motor	<u>6.00</u>
	\$10.00
5% Tax	.50
	<u>\$10.50</u>

but, if a guide is supplied, then no tax is payable by the customer with respect to the charge made for the guide services if these charges can be determined, for example,

Boat, Motor and Guide	\$30.00
Tax (5% × (\$4.00 + \$6.00))	.50
	<u>30.50</u>

or, a formula basis may be used and  $\frac{1}{3}$  of the total charge made, including guide service, will be considered to be the rental of the boat and motor and tax must be charged to the customer on this amount, as an illustration,

Boat, Motor and Guide	\$30.00
Tax (5% × $\frac{1}{3}$ × \$30.00)	.50
	<u>\$30.50</u>

If a boat and motor is purchased for use by the tourist camp operator as a water taxi, party boat, cruise boat, etc., he must pay tax on purchase and no tax need be charged, as such, to the fishing parties or others who are taken out in the boat.

If a boat and motor is purchased for use by a self-employed guide, he must pay tax on the purchase price. When a customer uses his services and pays the charges direct to the guide, tax does not apply on the charges.

# retail sales tax

## FARM FENCE

All types of fencing may be purchased exempt by farmers when it is to be used on the farm and the farmer so certifies to his supplier. Snow fence is included in this category. Note that wire corn crib mesh (fabric) is taxable to a farmer as a building material.

## BINS AND TANKS USED BY FARMERS

Grain storage bins, storage tanks, silos and similar items are, in general, considered to be realty for purposes of The Retail Sales Tax Act. Farmers may not buy these items exempt as farm equipment. It should be noted, however, that aeration and heater units used with grain drying equipment may be purchased exempt by farmers when they provide their suppliers with a purchase exemption certificate.

## MANUFACTURERS: PURCHASES

Act 5(1)38 exempts dies and certain other items to manufacturers when they are to be used directly in the process of manufacture by the purchaser.

Two points have been queried and may be of general interest:

- Parts for the exempt items may also be purchased exempt.
- A manufacturer may still gain the exemption even if the die, for example, is to be used by another manufacturer under contract to the purchaser.

## MANUFACTURERS: EXEMPTIONS

We have had numerous queries concerning whether or not guides, chucks, chuck jaws and collets are exempt under Act 5(1)38. All these items have been ruled taxable under this section.

We would remind manufacturers that insofar as materials consumed or expended directly in the process of manufacture are concerned, the Retail Sales Tax Branch attempts at all times to parallel the exemptions extended under section 2 of Part XIII of Schedule III of the Excise Tax Act. Exemptions under any other section of the Excise Tax Act, however, have no bearing.

## REWINDING PRODUCTION MOTORS

Where a manufacturer either rewinds his own production motors or has them rewound by someone else he may buy formex wire, enamelled copper wire, cambric cloth and similar items exempt effective April 1, 1969 under Act 5(1)39.

The rewinder must segregate the above items on his invoice and he may sell, exempt of tax, only those which are exempt under Section 2 of Part XIII of Schedule III. He must obtain a purchase exemption certificate or the purchase order must carry a "G" permit number. He must also charge tax on his invoice for labour or items other than those specifically exempted under the above noted section.

## KEEPING RECORDS

Registered vendors sometimes don't keep records in sufficient

detail to back up the sales tax they send in. This lack can result in estimated amounts being assessed. If you are not sure what records are required, get in touch with your District Sales Tax Office. The people there will be pleased to explain the requirements of the Act to you. You are the one who benefits if you keep your records properly.

## OWNERSHIP CHANGES

A number of points are of importance to both buyers and sellers regarding sales tax when a business changes hands.

- the seller should advise his District Retail Sales Tax Office of the sale and request cancellation of his permit.
- the purchaser must obtain a new permit.
- the purchaser should request a clearance certificate if the purchase is under the Bulk Sales Act. If no certificate is obtained, the purchaser can be held liable for any taxes owing by the previous owners.

## MAINTENANCE CONTRACT CHARGES

We have had a number of queries concerning the status of maintenance charges, particularly in connection with rentals.

If maintenance charges are billed separately or are clearly segregated from other charges on an invoice, no tax need be applied to the maintenance charges.

For example:

To monthly rental of equipment	\$300.00
Retail Sales Tax (5% of \$300)	15.00
Maintenance Charge	50.00
	<hr/>
Total	\$365.00

Provided the cost of parts used in keeping the equipment serviceable is included in the rental charge, the lessor may purchase them exempt. If the cost of the parts is included in the maintenance charge, the lessor must pay tax on them on purchase.

The charges for separate maintenance contracts do not attract tax. In these instances the person providing the service must pay tax on all the parts used unless he bills them separately. If they are billed separately to the customer, tax must be charged to the customer.

## CHEMICALS USED IN SEWAGE DISPOSAL PLANTS

An Order-in-Council has been passed, effective retroactively to April 1, 1970, which exempts municipalities and their local boards from payment of retail sales tax on purchases of chlorine and other chemicals used in the treatment of sewage in sewage disposal plants.

Chemicals used in testing sewage and sludge conditions in sewage treatment plants are considered to fall within this exemption.

Vendors of these chemicals need not charge tax to municipalities or local boards and no certificate is required. Where tax has been charged on or after April 1, 1970, a credit note may be issued upon request of the municipality or local board.

# gasoline, tobacco & motor vehicle fuel taxes

## GASOLINE TAX: REFUND CLAIMS

A number of gasoline dealers make a practice of completing refund claim forms on behalf of their customers. There is no objection to this provided that the dealer does not complete the section for deductions, sign the form or provide invoices marked paid when the tax has not been paid. In other words, the dealer can, himself, complete only those parts of the form, part 1 and part 5, which can be substantiated through his own records. If the claimant wishes the dealer to complete the balance of the information required, then the claimant must provide the information. The claimant remains fully responsible for all the information given and for the date of submission of the claim, a matter of importance when time penalties are applied. In fairness to the dealer, he must be given the proper information and sufficient time to submit the application and, bear in mind, that the Government will deal only with the claimant on matters subject to dispute.

Dealers are reminded that tax cannot be refunded before it is paid. Should a dealer signify that tax has been paid when such is not the case, then, in the event of a bad debt arising, the dealer may be unable to recover the debt.

The Provincial Government will, from time to time, by audit, verify the accuracy of the purchases through the dealers' records and where any discrepancies are apparent will reclaim all overpayments and take whatever action is necessary to prevent further problems arising.

## READY-MIX CONCRETE

When ready-mix concrete is being delivered, there is a liability to tax at the full rate on the fuel used to prepare the concrete, if the concrete is destined for road work. There are a number of particular problems in this area and if ready-mix

operators are in any doubt about any matter, they are advised to contact the Gasoline Tax Branch for further information.

## TOBACCO TAX

The January Bulletin made a short reference to the fact that retailers of tobacco must hold a retail sales tax vendor's permit. Since January, we have found both wholesalers and retailers who have been selling tobacco and cigarettes without permits and collecting the tax incorrectly. As you can well imagine there are now problems of assessment and possible prosecutions.

Every wholesale dealer is required under Section 8 of the Regulations to imprint his tobacco tax permit number on his invoices. This is to protect retailers from being involved in tax charges which arise if they purchase, inadvertently, from an unlicensed dealer who has not remitted the tax. Retailers should check to ensure that their purchases are made only from wholesale dealers authorized to sell tobacco. If the retailer's supplier does not quote the permit number on his invoices, retailers would be well advised to contact the Supervisor of Revenue, Tobacco Tax Branch.

## MOTOR VEHICLE FUEL TAX

You may not be aware of the fact that the drivers of all diesel powered vehicles should carry the invoices relating to the last purchase of fuel if there is more than 40 gallons of diesel fuel in the fuel tanks. The invoices must show that tax has been paid to Ontario as all fuel in excess of 40 gallons is deemed to have been purchased in Ontario. This does not mean, in case you might like to think it, that you can have the first 40 gallons tax free. Alas, no. Every gallon of fuel going into a fuel tank, whatever the mix, must bear tax at the full rate.

## FROM THE EDITOR

Ontario's new Minister of Revenue, the Hon. Eric Winkler, is one of the rare federal politicians to switch from the federal to the provincial field. From 1957 to 1965 Mr. Winkler was the Grey-Bruce member in Ottawa where he served in a variety of capacities including the demanding job of Chief Opposition Whip.

In 1967 he retired from the House of Commons to contest the Grey South provincial riding which he won with a commanding majority. When the Hon. William Davis was sworn in as Prime Minister of Ontario, Mr. Winkler was named to the cabinet.

This impressive record of federal and provincial experience is backed up with an equally impressive record in municipal government. For six years he served the Council in his home town of Hanover, four of the years as Mayor. He has always taken part in other areas of community life serving on the Planning Board, the Hydro Commission, and the Hanover Branch of the Canadian Legion. He is a member of the Board of Governors of Waterloo Lutheran University and, in 1969, was made a member of the Executive Council of the Lutheran Church in America.

Amidst all of this public life involvement Mr. Winkler has been able to maintain a happy private life. He married his wife, Frances, in 1949 and since then they have had four children, two boys and two girls.

Mr. Winkler brings to the Revenue portfolio a depth of political expertise and a keen sense of service to the public.





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# tax bulletin

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## Highlights

Clarification on the definition of children's clothing and snowmobiles. Questions and answers on mobile homes and paperback books.

Information on sums or credits advanced to Corporations; Lien Notes; Farm Corporations; voluntary dissolution; payments for security transfer tax; forgivable loans.

An explanation of what the Succession Duty Branch does when it reviews the valuation of property, transmissions and dispositions in the value of an estate.

A "word to the wise" on diesel fuel tax; information on vendor permits for tobacco sales; a guide to gasoline tax refunds.

"Where it comes from . . . where it goes".

A letter from the Hon. John H. White, Minister of Revenue.

We get it again!

Note: Every reader is reminded that much of the information in this Bulletin has been condensed from the Statutes and Regulations. For greater accuracy in specific applications, reference should be made to those sources.

# retail sales tax

Thanks again for your letters. Keep them coming. It should be remembered that the Bulletin is only designed to alert taxpayers to various factors which may be of interest to them. Reference *must* be made to the statutes for specific rulings. Also, when you write the Branch for a specific ruling, please quote your permit number to ensure quick replies and accurate reference filing. It will help both of us.

## CHILDREN'S CLOTHING

From Toronto . . . what are the tax exemption rules regarding children's tights and panty hose?

Sizes up to and including 14 are considered children's sizes and are exempt. Those items designated "Junior", fall in the same category and are, therefore, exempt as well.

## LOCAL BOARDS

From Western Ontario . . . Do the Ontario Water Resources Commission and Conservation Authorities qualify as local boards for the purpose of the Retail Sales Tax Act Ruling 21 (i.e. pertaining to right to purchase tax exempt under certain conditions)?

Yes. The OWRC and Conservation Authorities, as established under The Conservation Authorities Act, have both been defined as local boards for the purposes of Ruling 21. It became effective October 15, 1970. Also, similar arrangements are available to schools, hospitals, nurses' residences, etc. under Ruling 16A. Under both rulings a "Special Permit" must be obtained by the contractor through the District Retail Sales Tax office.

## MOBILE HOMES

From Thedford . . . when does the sale of a mobile home become the sale of tangible personal property and when is it the sale of real estate?

This is a tricky question. The tax applies differently in each case. Best way to handle the problem is to write to your District Retail Sales Tax Director. In the meantime, maybe this illustration will help: If you have a travel trailer that attaches to your car and which you drive around the Province, stopping at different camp sites, then this is tangible personal property and retail sales tax applies every time it is sold. If, however, your mobile home, either on wheels, or blocks (or whatever), is connected to electricity, gas, propane, water, sewers etc. (in short, where it is expected to be lived in), then it is considered real estate and retail sales tax applies in a different way. Got it?

## SNOWMOBILES

From just about everywhere . . . is a snowmobile considered to be farm equipment?

Snowmobiles are *not* considered to be farm equipment under any circumstances and farmers must pay tax on purchase of them. Purchase exemption certificates from farmers are not acceptable on these purchases. Sorry about that, fellows!

## LODGING

From Windsor . . . I will be going to Toronto on a special assignment and will be staying at a hotel. I might be there 10 days or 40 consecutive days. Is there any tax relief on my accommodation?

As you obviously know, transient accommodation attracts tax at 5% unless rented for a month or more. Tax must be charged initially on the first month or any part of it. If the occupancy by the tenant exceeds one month of continuous rental, the accommodation becomes exempt and tax should be refunded to him by the operator. In short, you will get a tax refund if you are there more than a month.

## BOOK TAX

From the Simcoe area . . . Why aren't paperback pocket books taxed? Especially when the bulk of them are just plain junk!

This is an often-asked question and it is often discussed by tax authorities. But think of the complications! Should text books then be taxed? If books are taxed, should a tax also be levied on other disseminators of information and entertainment such as radio and TV? How do you collect the tax from the people who watch Hockey Night in Canada? You're correct in realizing that there's a great source of potential revenue in this area but, as the Minister explained, it would have a restrictive influence on the acquisition of knowledge.

## STATIONERY

From Ottawa . . . Are you required to pay sales tax on forms which are used with regard to sales outside the province (i.e. sales invoices, order forms, stationery etc.)?

Yes. It is payable when you purchase the materials. All office stationery used in the province is taxable. For example, invoices typed up in the province are taxable, even if shipped out of the province with other goods.

# corporations tax

## SUMS OR CREDITS ADVANCED TO CORPORATIONS

The definition of paid-up capital includes all sums or credits advanced or loaned to a corporation by any other corporation whether secured or unsecured but does not include sums or credits advanced or loaned to a corporation by individuals unless secured by any of the property of the corporation. In general, ordinary trade accounts payable including amounts payable to affiliated or associated corporations will not be included in paid-up capital as long as they are payable within the normal trade terms granted by the supplier to its ordinary trade customers. However, where such amounts have been outstanding beyond the terms of trade granted by the supplier to its ordinary trade customers or for more than 120 days prior to balance sheet date, whichever is the lesser, such amounts will be considered advances under Section 68 of the Act and are to be included in the computation of paid-up capital. For the purpose of the investment allowance the same will apply to the amounts receivable by a corporation under Section 69(1)(c) of The Corporations Tax Act.

## LIEN NOTES

Section 68 of The Corporations Tax Act states that indebtedness represented by lien notes or mortgages shall be included in paid-up capital. This includes all lien notes and mortgages regardless of the security pledged. However, in the case of lien notes only, the Department excludes the amount of a lien note payable in full within one year of the balance sheet date.

## LIMITATION ON INCOME TAX EXEMPTION—FARM CORPORATIONS

Corporations engaged in the business of farming are liable to income tax in the same way as any ordinary corporation. The exemption described in Section 4(37)(c) of The Corporations Tax Act and as referred to in item 40 on the CT23 tax return is restricted to corporations that meet the following requirement:

"an agricultural organization, a board of trade or a chamber of commerce, no part of the income of which is payable to or was otherwise available for the personal benefit of any proprietor, member or shareholder thereof".

## FORGIVABLE LOANS

Where a forgivable loan has been made by The Ontario Development Corporation no capital cost allowance will be allowed with respect to the property for which the loan was made. However, in the event that the loan or any part of such loan becomes in fact payable to the Crown in a fiscal year such amounts may then be added to the capital cost of the depreciable assets in that year for the purpose of capital cost allowance.

## IDENTIFICATION OF PAYMENTS

The Corporations Tax Branch processes over one quarter of a million cheques each year. Each cheque must be applied to

the correct account and to the correct tax year. However, many cheques intended to pay an assessed unpaid balance are credited as an instalment for a subsequent year when the application of the payment has not been indicated by the corporation. This, then, results in correspondence between the corporation and the Branch to resolve the situation.

Because interest is charged on deficient instalments, a corporation has the option to allocate the payment to the taxation year it chooses but, because of the large daily volume of cheques received by the Branch without an indication as to the allocation, it becomes administratively impossible to do more than guess at the intended allocation, although the computer assists to a certain degree in this endeavour. Consequently, a corporation making a payment can minimize the chances of misallocation by ensuring the following:

1. Where possible, include the computer-produced remittance advice with the cheque.
2. If a computer remittance advice is not available, identify the cheque or the accompanying letter with the account number to which the payment is to be applied and indicate whether the payment is for an assessment or an instalment and, if for an instalment, indicate the tax year to which it applies.

## VOLUNTARY DISSOLUTION

Commencing January 1, 1971, in accordance with Sections 247, 248 and 249 of The Business Corporations Act, 1970, a corporation will require a consent from the Corporations Tax Branch before filing Articles of Dissolution with the Department of Financial and Commercial Affairs. In order to facilitate the issuing of this consent, the Taxroll Unit of the Corporations Tax Branch will contact the corporation by letter when the "intention to dissolve" notice appears in the Ontario Gazette, setting out the requirements of the Corporations Tax Branch and supplying blank affidavit and tax return forms. In general, the requirements will be to complete the affidavit forms, to file all tax returns due to be filed to the date on which the affidavit is sworn and to pay any balances of estimated taxes due.

Any enquiries should be directed to the Supervisor, Taxroll Unit, Corporations Tax Branch, Department of Revenue, Queen's Park, Toronto.

## PAYMENTS FOR SECURITY TRANSFER TAX

As a convenience to corporations, without the necessity of requiring a separate return, an integrated computer system has enabled basic Security Transfer Tax information to be extracted from Corporations Tax returns for the Retail Sales Tax Branch which administers The Security Transfer Tax Act.

Please note, however, that any payments due under The Security Transfer Tax Act must be remitted directly to the Retail Sales Tax Branch and not to the Corporations Tax Branch. The payments should be identified as Security Transfer Tax payments; otherwise, payments may be credited to your Corporations Tax account in error.

For further information, please contact your District Retail Sales Tax office or telephone the Retail Sales Tax Head Office, Toronto, number 365-1774.

# succession duty

In the last Tax Bulletin issued in October 1970, the Editor published a number of questions that had been directed to the Department of Revenue, concerning succession duties, and the Editor attempted to answer them in simplified form. We would now like to express comments on some of the matters that are taken into consideration when the Succession Duty Branch reviews the valuation of property, transmissions and dispositions that would be included in the aggregate value of the estate of the deceased.

The 'valuation date' is the date of death of the deceased.

## STOCKS, BONDS AND OTHER BUSINESS INTERESTS

When a stock of a public company is involved, i.e. one whose shares are traded, little problem is encountered. Section 3 of The Succession Duty Act provides that the value of any security that is listed on a stock exchange, or if not so listed, for which a price or quotation is obtainable, is the closing price on the day as of which the value is to be determined; where there is no closing price or quotation on such day, then on the last preceding day on which there is a closing price.

The section provides, however, that the rule does not apply where:

- (a) There is not sufficiently widespread distribution of the securities to reflect the true value, and
- (b) Such price or quotation is or may be the result of manipulation or any means of influence or control.

As will be appreciated, closely-held family corporations and other unincorporated business enterprises form a large proportion of wealth held.

If sales or bona fide offers of business interests are known, then these represent the best evidence of value. The fact that there are no sales, however, does not prove that there is no value. In such cases, resort must be had to analyses of the financial structure, earnings and dividend-paying capacity. Audited balance sheets, profit and loss and surplus accounts are, accordingly, a basic requirement in such appraisals.

When earnings potential of a company is higher than can logically be expected as a return on the capital invested, the value of the stock may be increased because of goodwill. Such is commonly measured by price-earnings ratios prevailing in the industry; conversely, some value less than shareholders' equity may be borne out because of low earnings or poor potential. It is sometimes necessary, however, to look to book value of underlying assets and estimates made of their realizability.

In the case of companies for which there is a poor or no earnings outlook, realization of tangible assets may be the most realistic approach; this also applies to companies in liquidation.

The determination of value, as will be appreciated, is not a

perfect science. Resort should be had not only to financial condition and earnings, but to the level of salaries, the control element, life insurance, franchises and other valuable intangibles, all within the context of general economic conditions existing at the date of death.

## REAL ESTATE (ALL CLASSES)

There are many factors affecting the determination of value of real property. Although there is no statutory definition of "value" in the Act, the following definition is generally accepted both by the Department and professional appraisers.

"The highest price estimated in terms of money a property will bring, if exposed for sale in the open market, allowing a reasonable time to find a purchaser who buys with knowledge of all the usages to which it is adapted and for which it is capable of being used. Frequently, it is referred to as the price at which a willing seller will sell and a willing buyer will buy, neither being under abnormal pressure."

Where an open market sale of property takes place within a reasonable period of time after the death of the deceased, and where there has not been a change in economic factors since the death of the deceased, the sale price of the property, in most cases, will represent the value for succession duty purposes. Lacking an actual sale, where duty may be payable, the Department will examine the property to ascertain if the value declared by the estate represents the value as at the date of death. The sale of comparable properties may be taken by the Department as the criteria of value, and this premise is used primarily with regard to residential properties.

The valuations of income producing, commercial and industrial properties sets up greater problems. In addition to the comparable market information, the Department will examine the financial statements covering the operations of the properties and other relevant data. The information is then correlated in order to form an opinion of value.

Where our opinion of value does not agree with that of the estate representatives, a report of the change will be sent with a notation to the effect that the Department will consider any submissions that the estate may wish to make.

# gasoline, tobacco & motor vehicle fuel taxes

## Diesel Fuel Tax

Diesel fuel destined for taxable consumption, such as use in a licensed vehicle or in equipment engaged in the maintenance or construction of any road, may not be sold unless the seller has been licensed to sell by the Department of Revenue.

If you wish to sell diesel fuel for these purposes, it is a simple matter to write to the Gasoline Tax Branch and state that you require a licence to sell taxable diesel fuel. Licences are not restricted in any way.

The foregoing paragraphs set out in straight forward language the regulations. As you may have read in the newspapers, some people evade paying the diesel fuel tax. Those that do evade the tax are forcing all the citizens of the province to subsidize their businesses. Frankly, it not only is illegal, it's unfair! The Department of Revenue intends to protect the interests of the tax paying public by "clamping down" on offenders. Hopefully, this "word to the wise" will be sufficient.

Incidentally, all Registration Certificates (Licences) must be renewed on March 31, 1971 and the fee is \$1.00.

## Tobacco Tax

On the subject of licencing, some retailers of cigarettes and tobaccos appear to be unaware that they must hold a vendor's permit issued under THE RETAIL SALES TAX ACT before retailing these items.

A reminder is being sent to all wholesalers to the effect that they may not supply cigarettes and tobaccos to any retailer who does not hold a vendor's permit.

## Gasoline Tax Refunds

During the past month, more than 500 applications for gasoline tax refund have been rejected and returned to the applicants because the signature at the end of the claim was not that of the applicant. The application form must be properly signed and supporting invoices must also bear the name of the applicant. In the case of a partnership or corporation, the form must be signed by an officer of the company and the title of the officer must be shown.

In the June '70 bulletin regular claimants were asked to ensure that they maintained records of issues of gasoline. Recent correspondence from industrial claimants indicates that many do not realize that we require them to record the individual issues of gasoline on which the claim is based and to maintain these records in support of the claims. If these records of issues are not available, then the repayment of the refunds may be demanded.

Some contractors and equipment operators, who do not have bulk storage, purchase gasoline on credit in containers and drums. In many cases they are then unable to obtain a tax refund because they cannot produce receipted invoices in support of the purchases. Don't do this. Obtain an invoice for each purchase and get it receipted when you pay the bill.

## FROM THE STATISTICIAN

Where does the tax dollar come from and how is it spent?

These two questions are often asked us here at the Department. Below are two charts taken from the Budget 1969-70 that offer, in simple terms, the answers.

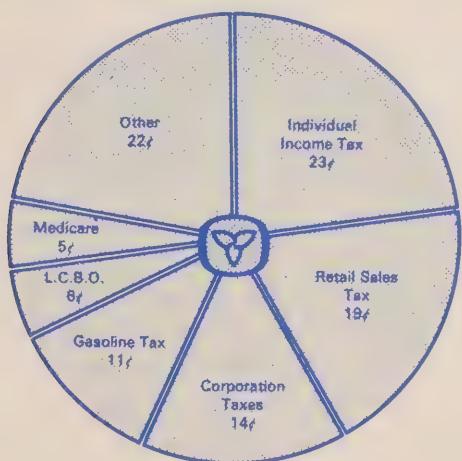


Figure 1: Where it comes from

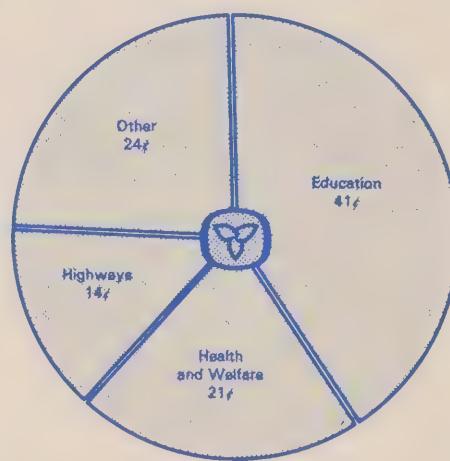


Figure 2: How it is spent

The "other" in Figure 1 comes, mainly, from: Transport, Lands & Forests, Mines, Tourism & Information and Education.

The "other" in Figure 2 includes, mainly, the following: Municipal Affairs, Social & Family Services, Public Works, Agriculture & Food, Trade and Development and the Justice Department which includes the Ontario Provincial Police.



## THE MINISTER OF REVENUE

January 1970

When I became the Minister of Revenue two years ago, I was determined to lower costs and to improve our communications with the public.

Satisfactory progress has been made and these facts may be of interest to you:

1. More than half a million tax reports a year have been eliminated.
2. Cost of tax collection has been lowered during the past twelve months from 76¢ per \$100.00 of tax collected to 66¢ per \$100.00 of tax collected.
3. Every form in use by the Department has been simplified and clarified.
4. Our staff decreased from 1,360 to 1,300, even though the number of taxpayers has increased by 15 per cent.
5. A new, readable bulletin published regularly informs taxpayers of tax requirements.

On this last point, I would like to extend my thanks to you. We have appreciated your kind comments, even your gentle barbs and, especially, your many questions. Your participation has helped to make our task easier and we are most appreciative.

Sincerely,

John White

## FROM THE EDITOR

In reference to our last Bulletin we had a call from a reader who asked, with tongue-in-cheek innocence, "Can a deceased person die?". Our research staff took up the problem and reported back with the following cryptic message: "Only on Thursdays!"



ONTARIO  
PROVINCE OF OPPORTUNITY

A Publication of The Department of Revenue  
Ministry of Revenue

Government  
Publications

September 1971

# tax bulletin

A Publication of the Department of Revenue  
The Honourable Eric Winkler  
Ontario Minister of Revenue

Bulletin 71-3



The Frost Building, Queen's Park, Toronto

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MOTOR VEHICLE FUEL TAX ..... Page 7

Tax on propane used as a fuel to propel motor vehicles; a reminder about allowances to gasoline retailers and refunds on marine craft fuel; and, the story of a court case.

PROVINCE OF ONTARIO  
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A notice of "Open House" and plans for expansion.

Note: Every reader is reminded that much of the information in this Bulletin has been condensed from the Statutes and Regulations. For greater accuracy in specific applications, reference should be made to those sources.

# retail sales tax



## PREPARED MEALS

We've tried to simplify the taxing of prepared meals even more—effective September 15, 1971, subruling (1) of Ruling 13 will be amended with regard to the billing procedures available to restaurants or others selling prepared meals and will read, in part:

"Tax at the rate of 10% applies to prepared meals sold for more than \$2.50. For purposes of determining and recording tax on prepared meals, three methods of billing are acceptable:

- (a) Each meal may be billed on a separate check. Tax applies to any such check where the total exceeds \$2.50.
- (b) The meals of several persons may be recorded on one check. On these occasions the number of persons served must be shown on the check and if the average price per person obtained by dividing the total amount of the check by the number of persons served is \$2.50 or less tax does not apply. However, tax applies to the total amount of the check if the average price per person exceeds \$2.50.
- (c) Where the prices of each of the items comprising a meal are rung up on a cash register (as in a cafeteria) a total may be taken for each meal and tax will apply as in (a) above. If items comprising the meals of several persons are all included in one total figure, the number of persons must be shown on the cash register tape and tax will apply dependent upon the average price per person as in (b) above."

Paragraph (a) represents no change from past rulings and organizations giving separate checks may continue to do so, applying tax at 10% to any check where the total exceeds \$2.50.

Paragraph (b) represents a distinct change and allows "averaging" where a number of persons are eating together and their meals are billed on one check.

**EXAMPLE 1**—A family of four is billed as follows:

2 Steaks @ \$4.00.....	\$ 8.00
1 Roast Beef .....	2.60
1 Hamburger .....	.75
2 Coffee @ .15¢ .....	.30
2 Milk @ .20 .....	.40
1 Boston Cream .....	.60
	<hr/>
	\$12.65

The average here is  $\$12.65/4=\$3.16$  and the total bill is taxable at  $10\% \times \$12.65=\$1.27$ . It should be noted that if separate checks are issued the 75¢ hamburger and accompanying beverage would not be taxable, as outlined in paragraph (a).

**EXAMPLE 2**—Four businessmen go into their favourite local restaurant for lunch and are billed like this:

4 Soup .....	\$1.20
4 Egg Roll .....	1.00
B. Shrimp .....	2.00
B.Q. Ribs .....	1.75
Bf. C. Mein .....	1.75
F. Rice .....	1.00
4 Coffees .....	.60
Cookies .....	.25
	<hr/>
	\$9.55

The average here is  $\$9.55/4=\$2.39$  and no tax applies to any part of the billing.

The same principle applies as well to pizzas served in restaurants and shared by a number of persons in a group. The "average" will govern whether the check total is taxable or not.

The amendment does not affect the exemption covering take-out meals—that is those packaged or wrapped for consumption off the premises where sold. Neither does it change the fact that soft drinks sold with take-out meals are taxable when sold at a price of 21¢ or more in total.



## SALES OF LIQUOR

We are still receiving enquiries concerning sales of liquor and mix in taverns and cocktail lounges. Where the drink is sold at an all-inclusive price, tax applies at the rate of 10% on the total price.

If, however, the ginger ale, soda, or other soft drink mix is shown separately on the bill it may be taxed at 5% while the liquor remains taxable at 10%. As part of the total transaction, the mix is taxable even if priced at less than 21¢.

A ginger ale or other soft drink sold by itself for less than 21¢ is not taxable.



## MANUFACTURERS

Everyone continues to direct efforts towards pollution control and we remind you that section 5(1)39 of The Retail Sales Tax Act exempts materials, as defined by the Minister, consumed or expended directly in the process of manufacture or production of goods. The Minister has defined these materials to be those exempt to manufacturers under section 2 of Part XIII of Schedule III of The Excise Tax Act (Canada).

As of June 19, 1971, this section of The Excise Tax Act was amended to include materials consumed or expended in the detection, measurement, prevention, treatment, reduction or removal of pollutants to water, soil or air attributable to the manufacture or production of goods.

The Retail Sales Tax Branch will continue to follow the rulings given under section 2 of Part XIII of Schedule III of The Excise Tax Act for purposes of exemptions under section 5(1)(39) of The Retail Sales Tax Act.

This means that materials properly purchased exempt of federal tax under this section by manufacturers may also be certified as exempt of retail sales tax by these manufacturers whether consumed or expended directly in the manufacture or production of goods or in pollution control, with effect from June 19, 1971.

However, retail sales tax is payable on equipment purchased for pollution abatement, no matter who purchases it. Grants are available under The Pollution Abatement Incentive Act, 1970, equal to part or all of the retail sales tax paid.

For information concerning exemptions on materials, contact your local Retail Sales Tax District Office.

For information, concerning grants on equipment apply to Grants Approval Section, Department of the Environment, 880 Bay Street, Toronto 181, Ontario, Telephone No. 365-1988.

## SEASONAL VENDORS

If you operate a summer camp or other seasonal venture, you are asked to make sure that your end-of-season return is made before taking up winter residence in some other location. In the event it is necessary for the Branch to contact you in the off season, an up-to-date winter address is required. Please let your district tax office know if you have changed your winter address.

## SCHOOL SUPPLIES

It's school days again and a limited range of students' supplies are exempt from tax when purchased by anyone. Ruling 16(3) details them as follows:

- plain and lined exercise books and scribblers, but not if vertically ruled for bookkeeping or accounting
- lined foolscap in book form
- scrap books
- graph paper in book form
- punched loose-leaf refills (plain or lined, but not if ruled for bookkeeping or accounting)
- drawing books
- school bags and satchels
- music manuscript paper
- motion picture films certified to be "educational" by The National Film Board (Canada)
- educational portfolios which are designed as teaching aids and which contain facsimiles and reproductions of historical documents and descriptive data and educational materials.

In addition, schools, school boards and universities may purchase a wide range of classroom supplies exempt when they supply a purchase exemption certificate. For details of these items, ask your district tax office for a copy of Ruling 16.

## CHILDREN'S CLOTHING

With the back-to-school rush still on, discussions will arise with some of your customers concerning exemptions for children's clothing. Remember that it is size that determines whether children's clothing is taxable or exempt, not age of the child or any other factor. If you do not know the sizes governing the exemptions, ask your district tax office for a copy of Regulation 1 and refer to paragraphs 10, 11 and 14, children's clothing, children's footwear and commercial trade size.

## POTTING SOIL

We've had a lovely summer and soon the gardeners of Ontario will be getting their flower beds ready for the winter. Remember, ordinary soil sold by the bushel, yard or otherwise, is not taxable. Special mixes of potting soil containing soil conditioners, fertilizer or other ingredients are also exempt.

## VENDORS' RECORDS

Vendors are again reminded they must keep records of purchases, inventories, sales, discounts, refunds, tax collected and the disposal of the tax, including the remuneration taken in all instances where the sale of taxable tangible personal property is involved. Similar records as applicable are required where the vendor is providing a taxable service such as the rental of transient accommodation or operating a place of amusement.

These records must be available to authorized government personnel on request and should not be destroyed without permission of the Branch.

## MULTIPLE SALES

The Act provides exemption for "tangible personal property purchased at a price of less than 21¢." Some misunderstandings have arisen as to the application of this exemption. It only applies where the total sale of taxable items is under 21¢. For example, if one of your customers buys a 15¢ chocolate bar, no tax applies. However, if he buys three 15¢ chocolate bars at one time for a total of 45¢, you must collect 2¢ (5%) tax from him. It is the total of the taxable items that counts, not the price of the individual items themselves.

# corporations tax

## SPECIAL NOTICE—COMPUTER TAPES

Instead of a detailed listing of eligible assets on the CT23/CT8 Supplemental form, the Corporations Tax Branch will accept a computer magnetic tape containing the same information as required on the *Schedule of Eligible Assets* (report totals by class), provided that the format of the tape file is approved by the Branch *in advance* of filing the annual tax return. Enquiries should be directed to the E.D.P. Co-ordinator, Corporations Tax Branch, telephone 365-1515.

## AN ACT TO AMEND THE CORPORATIONS TAX ACT

1. Section 4a of The Corporations Tax Act, as enacted by section 1 of The Corporations Tax Amendment Act, 1971, is amended by adding thereto the following subsection:

(2a) For the purposes of this section, where the machinery and equipment in respect of which the provisions of subsection 2 would otherwise apply, is not used by the corporation in the fiscal year in which it is acquired, such machinery and equipment shall be deemed to have been acquired and used by the corporation in the fiscal year in which it is first used.

2. This Act shall be deemed to have come into force on the 26th day of April, 1971.

3. This Act may be cited as The Corporations Tax Amendment Act, 1971 (No. 2).

## PURCHASE OF SHARES—BORROWED MONEY

(Section 22, Subsection 1(a)(iv) of The Corporations Tax Act) For fiscal years ended after April 26, 1971, corporations will be entitled to deduct the interest incurred on borrowed money used for the purpose of purchasing shares of corporations incorporated under the laws of Ontario or any other jurisdiction. For the first fiscal year ended after April 26, 1971, the interest on the borrowed money incurred at any time during that fiscal year may be deducted. Interest on the borrowed money may be deducted even though the shares were purchased at any time prior to April 26, 1971.

Space has been provided on page 1 of the CT23 and CT8 tax returns to record the amount of interest charged to income for the fiscal year under Section 22, subsection 1(a)(iv). Please provide this information as indicated on the form.

## AMENDMENTS TO REGULATION 63

The following amendments have recently been made to Regulation 63 under The Corporations Tax Act. For your convenience, these amendments are reproduced on the reverse side of the CT23/CT8 Supplemental form, a reproduction of which appears on page 6 of this Bulletin.

1. Section 401 of Regulation 63 of Revised Regulations of Ontario, 1960, as remade by section 2 of Ontario Regulation 210/65 and amended by section 2 of Ontario Regulation 422/68 and section 3 of Ontario Regulation 449/70, is further amended by adding thereto the following subsection:

(1a) For the purpose of this section, the provisions of subsection 7a of section 20 of the *Income Tax Act* (Canada) shall not apply to increase the capital cost of property described in subsection 15 of section 1102 of the regulations made under that Act, and the amount deducted under this section shall not exceed or be less than the amount that would have been deducted, except for the provisions of subsection 7a of section 20 of the *Income Tax Act* (Canada) by the corporation under clause a of subsection 1 of section 11 of the *Income Tax Act* (Canada) in the same fiscal year.

2. Section 403 of Regulation 63 of Revised Regulations of Ontario, 1960, as made by Ontario Regulation 212/71, is revoked and the following substituted therefor:

403. (1) For the purposes of section 4a of the Act, machinery and equipment means property described in the following classes contained in Schedule B of the regulations made under the *Income Tax Act* (Canada) for the purposes of paragraph a of subsection 1 of section 11 of the *Income Tax Act* (Canada),

- (a) property described in class 2;
- (b) property described in paragraph a of class 3 or 6 that is airconditioning equipment, heating equipment, lighting fixtures, elevators or escalators;
- (c) property described in class 8;
- (d) property described in class 9 except radar equipment, radio transmission equipment or radio receiving equipment;
- (e) property described in paragraph h, except camp buildings, and paragraphs j, k, l, m and n of class 10;
- (f) property described in paragraphs d, f and j of class 12;
- (g) property described in class 15;
- (h) property described in class 17;
- (i) property described in class 22;
- (j) property described in class 24, except property that is a building;
- (k) property described in class 26; and
- (l) property described in class 27,

and includes machinery and equipment so described that is manufactured by a corporation and leased by it for use by a lessee or that is manufactured by a corporation and used by it in its manufacturing operation, provided such manufactured machinery and equipment was not included in the corporation's fixed assets or inventory of work-in-process or finished goods prior to April 27th, 1971.

(2) For purposes of section 4a of the Act, where machinery and equipment is manufactured by a corporation, the machinery and equipment shall be deemed to have been acquired by the corporation at a cost equal to the amount that would be the cost to the corporation for the purpose of section 401.

3. (1) Section 1 shall be deemed to have come into force on the 4th day of December, 1970.

(2) Section 2 shall be deemed to have come into force on the 26th day of April, 1971.

**TAX CREDIT—BASIS AND COMPUTATION  
(SECTION 4a OF THE CORPORATIONS TAX ACT)**

**Eligibility for Tax Credit** — A special tax credit is available to corporations liable to income tax under The Corporations Tax Act for the three fiscal years ending after April 26, 1971 and in certain cases for the first fiscal year ending after March 31, 1974.

Under this legislation, any corporation that is required to pay corporations income tax to Ontario for a fiscal year will be entitled to reduce tax by an amount equal to 5% of the cost of eligible machinery and equipment acquired after April 26, 1971 and used by it solely in the province prior to the expiration of that fiscal year. (See amendment to Section 4a of The Corporations Tax Act as reproduced in this Bulletin.)

**Qualifying Period** — It should be observed that:

- (a) the tax credit applies to eligible machinery and equipment acquired by a corporation pursuant to an agreement entered into after April 26, 1971 and before April 1, 1973, and includes machinery and equipment so described in the Regulation that is manufactured by a corporation and leased by it for use by a lessee or that is manufactured by a corporation and used by it in its manufacturing operation, provided such manufactured machinery and equipment was not included in the corporation's fixed assets or inventory of work-in-process or finished goods prior to April 27, 1971,
- (b) such machinery and equipment must be used solely in Ontario by the corporation before April 1, 1973,
- (c) to establish a tax credit for a particular fiscal year, eligible machinery and equipment must be acquired by the corporation after April 26, 1971 and used solely by the corporation in Ontario in that fiscal year,
- (d) unused tax credits may be carried forward to subsequent fiscal years, subject to the limitation hereinafter described,
- (e) the qualifying period includes the fiscal years or parts thereof that fall between April 26, 1971 and April 1, 1973,
- (f) eligible machinery and equipment means machinery and equipment prescribed by the regulations, and
- (g) the qualifying period is the period April 27, 1971 to March 31, 1973, both dates inclusive.

**Application of Tax Credits to Current and Subsequent Fiscal Years** — Any unused portion of the credit for the initial fiscal year (i.e., the first fiscal year ending after April 26, 1971) may be applied to reduce the tax payable in subsequent fiscal periods on income earned to March 31, 1973.

A further tax credit would be earned if in the second fiscal period ending after April 26, 1971 the corporation acquired and used, as prescribed, additional machinery and equipment. Any unused portion of this credit together with any unused portion of the credit from the previous period may be applied to the tax on income earned to March 31, 1973.

Finally, a further tax credit could be earned in the manner described above in the first fiscal year ending after March 31, 1973. To earn this credit the machinery and equipment must be purchased and used before April 1, 1973. Total credits including balances from previous fiscal periods may be used to reduce tax on income earned up to March 31, 1973.

Income earned to March 31, 1973 is measured by multiplying the income earned in the first fiscal year ending after March 31, 1973 by the fraction:

$$\frac{\text{Number of days in fiscal year up to March 31, 1973}}{365}$$

**Special Extension of Credit** — If an overall net loss is incurred during the qualifying period, the period in which the tax credit may be applied is extended one year.

"Net loss" means the amount, if any, by which the business losses (i.e., losses normally available for carry forward in accordance with Section 39, subsection 1, paragraph 3 of the Act) exceed the incomes of a corporation for its first, second and third fiscal years ending after April 26, 1971 (i.e., the qualifying period) except that in determining whether there is a net loss for the qualifying period, only that portion of the income or loss for the third fiscal year that the number of days of that fiscal year prior to April 1, 1973 is of 365 should be taken into account.

It is also important to note that, where for the purpose of determining the income tax payable for a fiscal year part of the taxable income of a corporation for that fiscal year is deemed to have been earned outside Ontario or, where a loss is incurred for that fiscal year and for the purpose of determining the capital tax payable for that fiscal year part of the taxable paid-up capital is deemed to have been used outside Ontario, the business loss or income for that fiscal year shall, in determining the net loss, be reduced in the same ratio that the income tax or capital tax, as the case may be, is reduced for that fiscal year.

Thus, where there is a net loss, the balance of unused tax credits (if any) carried forward from the third fiscal year ending after April 26, 1971 may be applied to reduce the tax otherwise payable for that part of the fourth fiscal year ending after April 26, 1971 that the number of days of such fiscal year prior to April 1, 1974 is of 365.

However, in no event may the tax credit be carried forward and applied to any fiscal period subsequent to the first fiscal year ended after March 31, 1974.

**How to Claim Tax Credit—Form CT23/CT8 Supplemental** — The tax credit must be claimed on form CT23/CT8 Supplemental at the time of filing the annual corporations tax return and thus will form part of that return. A specimen of this form is reproduced in this Bulletin. Supplemental forms will be mailed out automatically to all corporations at the same time that tax return forms are mailed. Additional copies will be available from the Branch on request.

Space has been provided on page 1 of the CT23 and CT8 tax returns to record the amount of the tax credit claimed and to record the total cost of eligible assets.

**NOTE 1:** For the purpose of the foregoing explanation, it is assumed that there are no fiscal year changes within the qualifying period.

**NOTE 2:** Section 20(7a) of the Income Tax Act (Canada) — There is no provision in The Corporations Tax Act similar to subsection 7a of section 20 of the Income Tax Act (Canada). This subsection states that certain depreciable property shall, if acquired after December 3, 1970 and before April 3, 1972 be deemed to have been acquired at a capital cost equal to 115% of cost. (See amendment to section 401, Regulation 63 reproduced in this Bulletin.)



DEPARTMENT OF REVENUE – CORPORATIONS TAX BRANCH

# CORPORATIONS TAX RETURN

PURSUANT TO THE CORPORATIONS TAX ACT

**CT 23/CT8  
SUPPLEMENTAL  
SPECIAL 5% TAX CREDIT**

ACCOUNT NUMBER	NAME OF CORPORATION	FISCAL YEAR END
----------------	---------------------	-----------------

**IMPORTANT:** Complete and forward one copy with form CT23 or CT8 TO: Department of Revenue, Corporations Tax Branch, Parliament Buildings, Toronto, Ontario.

**INSTRUCTIONS:** SECTION 4a (ONTARIO REGULATION 403) (see reverse side)

This form must be completed for each fiscal year ending after April 26, 1971 and commencing before April 1, 1973 (see note under 'Calculation of Tax Credit' below) if the corporation acquired and used eligible machinery and/or equipment after April 26, 1971 and before April 1, 1973 pursuant to an agreement entered into after April 26, 1971 and before April 26, 1973 and provided such machinery and/or equipment was used by the corporation solely in Ontario during the fiscal year in which the tax credit under Section 4a of the Act is claimed.

SCHEDULE OF ELIGIBLE ASSETS (ONTARIO REGULATION 403)

**SCHEDULE OF ELIGIBLE ASSETS (ONTARIO REGULATION 405)**

**Cost** INCLUDES ALL COSTS NORMALLY INCLUDED FOR PURPOSES OF CAPITAL COST ALLOWANCE. (SEE REVERSE SIDE FOR REGULATIONS).

**TOTAL COST OF ELIGIBLE ASSETS**

48

X

5

一

A

#### **CALCULATION OF TAX CREDIT (SECTION 4a)**

FOR FISCAL YEARS ENDING AFTER APRIL 26, 1971 AND COMMENCING PRIOR TO APRIL 1, 1973 COMPLETE C TO C

INSTRUCTIONS	TAX CREDITS	APPLICATION OF TAX CREDITS	SPECIAL TAX CREDIT CARRY TO PG FORM CT23 OR CT8
ENTER INCOME TAX OTHERWISE PAYABLE FOR THIS FISCAL YEAR		<b>C</b>	
ENTER TAX CREDIT FOR THIS FISCAL YEAR (ITEM <b>B</b> ABOVE)	<b>D</b>		
ENTER UNUSED BALANCE OF TAX CREDITS FROM PR OR FISCAL YEARS	<b>E</b>		
ENTER THE TOTAL OF <b>D</b> AND <b>E</b>		<b>F</b>	
ENTER LESSER OF <b>C</b> AND <b>F</b>			<b>G</b>
ENTER AMOUNT BY WHICH <b>F</b> EXCEEDS <b>C</b> . THIS IS THE AMOUNT, IF ANY, WHICH MAY BE CARRIED FORWARD AND ENTERED IN ITEM <b>E</b> IN A SUBSEQUENT FISCAL YEAR.		<b>\$</b>	

For the first fiscal year ending after March 31, 1973 calculate item C as follows:

For the *first* fiscal year ending *after* March 31, 1974 and where there is an unused tax credit from previous years (SEC 4(c)(1)(B) AND 4(c)(2))

- Use the formula shown above to calculate item **C** substituting fiscal year 1974 for fiscal year 1973.
- Enter the unused credit from previous years in item **F**.
- Enter the lesser of items **C** and **F** in item **C** and carry to appropriate section of page 1 of form CT23 or CT8.

## CERTIFICATION

NAME IN BLOCK LETTERS	I am an authorized signing officer of the Corporation. I certify that this return has been examined by me and is a true, correct and complete return.	
DATE	SIGNATURE OF SIGNING OFFICER OF THE CORPORATION	RANK OF OFFICER

# gasoline, tobacco & motor vehicle fuel taxes

## PROPANE

The June, 1970 Bulletin made special reference to the fact that when propane is used to propel a motor vehicle, the user must pay gasoline tax on the propane at the rate of 18¢ per gallon. Recent publicity given to propane indicated that the cost was very low in comparison with the cost of gasoline. No mention was made of the 18¢ per gallon tax and consumers or potential consumers might be misled into thinking either that propane, tax included, is only half the price of gasoline or that no tax is payable. Don't forget you must pay gasoline tax if you use propane in a motor vehicle.

## ALLOWANCE TO RETAILERS

If you are a retailer of gasoline, in possession of a licence to sell gasoline issued under The Gasoline Handling Act, own your inventory of gasoline or are responsible for losses and shortages arising before sale, you may be entitled to an allowance to cover tax losses. Write to the Gasoline Tax Branch and find out if you have an entitlement. You should have it if it is due to you.

## REFUNDS — MOTOR BOATS

Generally speaking, the full rate of tax is payable on all gasoline used in marine craft. There is, however, an exception to the rule—working boats. A working boat is one which is used for industrial or certain commercial purposes, the engine of

which boat is registered with the Department of Revenue. The definition includes boats used for logging, towing, providing a ferry service, or forming part of the operation of a licensed tourist outfitter. Marinas supplying motor boats at a charge inclusive of the gasoline may also have an entitlement. A prerequisite for refund is the acceptance for registration of the boat engine by the Gasoline Tax Branch.

It is worthwhile to remember that the refund is paid on actual use of gasoline supported by records of issues. An estimate of the volume used is not acceptable, neither is an hourly rate or other formulae.

## MOTOR VEHICLE FUEL TAX

In case you missed the press coverage of recent legal proceedings in which an operator of diesel vehicles avoided, for some time, the payment of tax on diesel fuel, the major points are repeated.

Gasoline Tax Branch auditors ascertained that tax on over 55,000 gallons of fuel had not been paid. Tax investigators then proceeded to bring the matter before the Court and the result was the imposition of the alternative of a fine or 365 days in jail.

Ontario carriers as well as the Department of Revenue are very much concerned about the effect of such practices on the operations of law abiding carriers. It is hoped that the efforts of the Department of Revenue and our neighbouring provinces, who have been energetic in this area, will improve the situation.

**The Gasoline Tax Act & Regulations (Nov./69)** make the following table a good general guide as to the taxable and non-taxable uses of the various fuels:

Use	Gasoline	Propane	Fuel Oils	Use	Gasoline	Propane	Fuel Oils
Cooking	Full Refund	Exempt	Exempt	Road Construction (cont'd)			
Heating a dwelling house	Full Refund	Exempt	Exempt	Burning of materials	Taxable	Taxable	Exempt
Propulsion of:-				Generation of Electricity	Taxable	Taxable	Exempt
Licensed Vehicles	Taxable	Taxable	Taxable	Lanterns (lamps)	Taxable	Exempt	Exempt
Working Boats	Partial Refund	Partial Refund	Exempt	General Construction			
Motorized Snow Vehicles	Taxable	Taxable	Exempt for off-highway only	Cooking	Full Refund	Exempt	Exempt
Road Construction				Accommodation Heating	Partial Refund	Exempt	Exempt
Cooking	Full Refund	Exempt	Exempt	Propulsion of unlicensed equipment	Partial Refund	Exempt	Exempt
Accommodation Heating	Taxable	Exempt	Exempt	Heating of construction	Partial Refund	Exempt	Exempt
Propulsion of Equipment	Taxable	Taxable	Taxable	Burning of materials	Partial Refund	Exempt	Exempt
Heating of construction	Taxable	Taxable	Exempt	Generation of Electricity	Partial Refund	Exempt	Exempt
				Lanterns (lamps)	Partial Refund	Exempt	Exempt

## FROM THE EDITOR

Again we'd like to thank you for your letters. Keeping this Bulletin topical is our best way of being of service to you, so if there is any Ontario tax matter that you would like to see covered, please get in touch. Our address is: Editor, The Bulletin, Ontario Department of Revenue, Frost Bldg., Queen's Park, Toronto.

# province of ontario savings office

## OPEN HOUSE AT THE PROVINCE OF ONTARIO SAVINGS OFFICE

Early in September the Hon. Eric Winkler, Minister of Revenue, announced that plans are being formulated to extend the service of the Ontario Savings Offices. There are 21 branches of the Savings Offices located in 15 Ontario communities.

"We have been up-dating the physical appearance of the branches" Mr. Winkler said, "and our next step is to explore the possibilities of opening more branches throughout the Province. The Ontario Savings Offices offer a unique service to the public by offering 5% interest per annum on the minimum monthly balance of the account while, at the same time, extending chequing privileges. This is a service that more of our citizens should have the opportunity of enjoying and that is why we are planning to expand."

From September 13th to 24th the Department of revenue will be holding "Open House" at all its Savings Office branches. Those opening a new account will receive a souvenir brooch or tie pin in the Ontario emblematic motif of the trillium.

"The Ontario Savings Office is the ideal example of people and government working together," the Minister said, "because the citizens can participate by lending their savings with the assurance of a high rate of return, and, in turn, it gives the Treasury access to funds. A perfect two-way benefit"

The first branches of the Ontario Savings Office were opened in 1922 and no new branch has been added to the chain since 1951. Aside from opening new locations the Department of Revenue intends to initiate commercial and small business loans and provide mortgage lending facilities.

Here is a list of the branches, their location and the names of the managers.

Branch	Location	Manager
Aylmer	34 Talbot Street	I. N. Harcourt
Brantford	138 Dalhousie Street	J. A. Malcolm
Guelph	164 Wyndham Street North	R. L. Painter
Hamilton	36-38 James Street South	L. E. Kelcher
Hamilton East End	318 Ottawa Street North	C. S. Costanza
London	353 Richmond Street	D. R. Stewart
Ottawa	171 Sparks Street	R. Laframboise
Owen Sound	825 Second Avenue East	G. S. Matthias
Pembroke	40 Pembroke Street	E. E. Clarke
Seaforth	Main Street	R. S. MacDonald
St. Catharines	106 King Street (mailing address Box 651)	R. S. Saunders
St. Marys	134 Queen Street East	D. W. Haight
Walkerton	236 Durham Street East (mailing address Box 308)	R. J. Smith
Windsor	372 Ouellette Avenue	R. M. Suntz
Woodstock	396 Dundas Street	R. W. Hunter
<b>Toronto Branches</b>		
Bay and Adelaide	328 Bay Street	M. J. Dugas D. L. Taylor (A/M)
Danforth Fenwick	519 Danforth Avenue	E. T. Kronbergs
Danforth & Woodbine	2035 Danforth Avenue	F. J. Smith
Parliament Buildings	Room M 140, MacDonald Block	J. G. Ponesse
1556 Yonge Street	1556 Yonge Street	F. X. Sevigny
University & Dundas	223 Dundas Street West	D. T. Doughty

December 1971

# tax bulletin

A Publication of the Department of Revenue  
The Honourable Eric Winkler  
Ontario Minister of Revenue

Bulletin 71-4

The Retail Sales Tax Branch and the Corporations Tax Branch have moved from the Frost Building on Queen's Park Crescent to 10 Wellesley Street East, Toronto, next door to the Wellesley Subway Station. Mailing address remains the same: Department of Revenue, Parliament Buildings, Toronto 182, Ontario.

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## Highlights

Some words on: sales of liquor, wine and bottled beer, prices of admission, banquet permits, late filing, snow vehicles and other items of interest
Some words on: incomplete CT23/CT8 supplemental; penalties; Goodwill Allowance and other items of interest
Changes in Personal Income Tax, Succession Duty and Corporations Tax
A summary of tax evasion court decisions
A correction; a Savings Report; a personal word

*Note: Every reader is reminded that much of the information in this Bulletin has been condensed from the Statutes and Regulations. For greater accuracy in specific applications, reference should be made to those sources.*

# retail sales tax

On the front page you'll notice that we have moved to 10 Wellesley St., E. If you are visiting the Branch, enquiries concerning The Retail Sales Tax Act, The Land Transfer Tax Act and The Security Transfer Tax Act should be made on the 7th floor at our new address.

## SALES OF LIQUOR, WINE AND BOTTLED BEER

Vendors are reminded that liquor, wine and bottled beer are taxable at 10% under The Retail Sales Tax Act.

Vendors selling these beverages must account for tax on each sale and pay tax on the cost of all drinks given away.

When checks or cash register receipts are provided to customers, tax must be calculated and shown separately on each check or receipt. The actual amount of tax billed must be remitted with vendors' tax returns.

Where checks or cash register receipts are not provided to customers, the selling price, the tax, and the total charge for each type of drink must be prominently posted in public view or listed on beverage lists supplied to customers. For example, a drink for which the total charge is 75¢ must be listed as 68¢ + 7¢ tax = 75¢, and 7¢ must be remitted for every sale of this particular drink. If the prices charged are not posted as indicated above, tax must be remitted at 10% on the total charges for all drinks sold inasmuch as Regulation 785(12) requires a vendor who quotes a price without reference to the tax, to add and collect the tax on the price so quoted. In the foregoing example, if the prices are not posted and the vendor sold 1000 drinks for which the total charge for each was 75¢, he is required to remit tax of \$75.00.

The above procedures apply also to vendors whose only taxable beverage sales consist of bottled beer.

## PRICES OF ADMISSION

Prices of admission to places of amusement are basically taxed at the rate of 10%.

It is important that the prices be conspicuously posted showing the price of the ticket, the tax and the total separately. For example,

$$\$2.27 + 23\% \text{ Tax} = \$2.50 \text{ Total}$$

Regulation 785(12) under The Retail Sales Tax Act requires this detail and assessments may be levied if the regulation is not followed. It is unlawful to merely show a price "tax included" without showing the exact amount of tax.

## SNOW VEHICLES

That time is here again and snow vehicles are in great demand. Dealers—don't forget that no one can buy these machines exempt (except another dealer for resale). Trappers, loggers, farmers, fishermen, geologists and your next door neighbour all have to pay tax no matter where the vehicle is to be used, or for what purpose.

## BANQUET PERMITS

All organizations holding vendors' permits issued under The Retail Sales Tax Act are reminded that when they make sales of liquor, bottled beer or wine under the authority of a Special Occasion Permit (Banquet Permit) issued by Ontario Liquor Licence Board, they are required to collect and remit retail sales tax on the selling price of the liquor, bottled beer or wine.

The tax paid on the purchase of the liquor, bottled beer and wine is to be deducted from the tax collected on the sale thereof and the balance included on the vendor's regular tax return.

## TAX ON TAX

A great many items are subject to Federal Sales Tax, which, being applied at the manufacturers' level, is obviously included in the retail price even if it doesn't show. We are frequently asked to explain why the Retail Sales Tax is applied on the Federal tax.

The answer is, of course, that the Ontario tax is calculated, as the name implies, on the retail sales "price" to the final user. The Federal tax included in the price is just another of numerous cost items that go to make up the retail price of the article on which the Retail Sales Tax must be applied.

The Retail Sales Tax can only be applied in this manner as the British North America Act restricts the provinces to the use of "direct" taxes levied on the ultimate consumer.

## LATE FILING

We would like to remind all registered vendors that late filing can be expensive. You have 23 days to make up your return and send it in along with the payment. If you miss the date, a penalty of 5% of the tax collectable will be assessed, you will lose your remuneration which can represent as much as another 2½% of tax collectable and interest at the rate of 9% per annum will be applied.

Note also that you must send in the tax "collectable"—that is the tax you have charged, even if you haven't collected it yet. The Act requires the purchaser to pay the tax at the time of the sale, irrespective of when you receive payments on the account. You must remit the tax on the return covering the period in which the sale occurred.

# corporations tax

## WE HAVE MOVED:

As noted on Page 1, we've moved to 10 Wellesley Street, E. Our mailing address "Department of Revenue, Corporations Tax Branch, Parliament Buildings, Toronto 182, Ontario" remains the same as will most of our telephone numbers, but if you want to visit our office you should go to the Wellesley Street address.

The Liens Office will be on the third floor and enquiries can be made from the Receptionist on the third floor as to the location of other sections or other members of the staff.

**INCOMPLETE CT23/CT8  
SUPPLEMENTAL—SPECIAL  
5% TAX CREDIT**

The CT23/CT8 Supplemental will be returned to the corporation for completion when the signature of the signing officer of the corporation is missing.

The CT23/CT8 supplemental should be enclosed with the CT23 or CT8 tax return for filing purposes and **not** mailed separately.

For a claim to be accepted, information requested in the body of the supplemental return such as class and description of assets, pertinent dates and cost must be completed.

CORPORATIONS TAX BRANCH  
(Dept. of Revenue)  
VS COMPANIES BRANCH  
(Dept. of Financial &  
Commercial Affairs)

Occasionally enquiries intended for the Corporations Tax Branch located at 10 Wellesley Street East arrive at the Companies Branch, across the street at 555 Yonge Street or vice versa.

Any questions regarding tax liability or information on liens on corporation assets should be directed to the

## GOODWILL ALLOWANCE

Item 8 on page 3 of the February, 1970 special corporation tax bulletin is replaced as indicated below. The only change is the addition of the words "claim the lesser of "A" or "B".

8. If the corporation is entitled to a deduction from paid-up capital with respect to goodwill, the amount thereof should be determined in accordance with the following formula.

**GOODWILL ALLOWANCE** (to be completed if corporation carries Goodwill as an asset)      Claim the lesser of (A) or (B)

(A) GOODWILL (Exclude any patent or right amortizable by charges to income)

**(B) Excess of Paid-up Capital Stock over Capitalized Value of Net Income for the current year and previous four years**

Goodwill	.....	.....
Patent Rights	.....	.....
Copyrights	.....	.....
Trademarks	.....	.....
Other Intangible Assets (specify)	.....	.....
<b>TOTAL</b>	.....	.....
50% thereof	.....	.....

### Paid-up Capital Stock

Deduct: Capitalized value of Net Income.

Average Net Income\* ..... X --

### Excess of Paid-up Capital Stock

1000

\*Average net income means the total annual profits less losses for the current year and the immediately preceding four years available for dividends on preferred or common stock after providing for all reasonable charges including income tax, divided by five. Average net income cannot be less than zero. If the capitalized value of net income equals or exceeds the paid-up capital stock, no deduction is allowed.

# tax changes

On December 13th the Government announced changes in three tax acts. At the time this issue of the "Tax Bulletin" went to press, bills to implement these proposed changes had received first reading in the Legislature. They have not received final approval at this time.

## PERSONAL INCOME TAX

### Reduction of 1971 Ontario Personal Income Tax

- Ontario income tax payable by individuals for the 1971 taxation year will be 27.5 per cent of the basic federal tax.
- The federal abatement for Ontario income tax will remain at 28 per cent for the 1971 taxation year.
- This reduction of one-half percentage point represents a 3.6 per cent reduction in provincial income tax payable by individuals for the six-month period July 1, 1971 to December 31, 1971.
- The reduction in tax payable will be realized upon filing the 1971 individual income tax return.

### Reduction of 1972 Ontario Personal Income Tax

- Ontario income tax payable by individuals for the 1972 taxation year will be 30.5 per cent of the tax payable under the federal Act for that taxation year.
- Individuals resident in Ontario on December 31, 1972, may deduct from their income tax otherwise payable to Ontario an amount equal to 3 per cent of the income tax otherwise payable to Ontario.
- The income tax reduction of 3 per cent from Ontario income tax otherwise payable will be reflected in payroll deductions at source for the 1972 taxation year.

## SUCCESSION DUTY

Changes effective in respect of deaths occurring after midnight, December 31, 1971:

### 1. Rates of Duty

The rates of duty applicable to all classes of beneficiaries i.e. preferred, collaterals and strangers will be doubled.

### 2. Surtaxes

The existing surtax of 20 per cent for collateral beneficiaries and 25 per cent for strangers will be eliminated.

### 3. Estates valued up to \$100,000 will not be subject to Duty

No duty will be payable on an estate valued up to \$100,000, regardless of the distribution, instead of the present \$20,000 where such property passes to collateral beneficiaries and the present \$10,000 where property passes to stranger beneficiaries.

### 4. Increase in Widows' and Widowers' Exemption

The exemption for widows and widowers will be increased from \$250,000 to \$500,000. The corresponding credit, when duty is payable, will be increased from \$23,950 to \$125,000.

### 5. Dispositions made after December 31, 1971

Dispositions (gifts) made within fifteen years prior to the death of the deceased will be included as property of the deceased passing on his death if made on or after January 1, 1972. The present five-year period will continue to apply where dispositions are made prior to January 1, 1972.

## Exemption of Federal Employment Support Grants

- An amount paid to a corporation on account of an employment support grant under the Employment Support Act (Canada) will not be included in computing the income of a corporation for purposes of computing taxable income under The Corporations Tax Act of Ontario.
- The exemption will apply to all employment support grants paid in 1971 and subsequent fiscal years.

## Further Amendment to regulation re 5% Investment Tax Credit

Although not a part of the tax bill, this amendment is of interest to some corporations.

Section 403(1) of Regulation 63, R.R.O. 1960 to The Corporations Tax Act has been amended to include additional property in classes 9 and 10 as eligible machinery and equipment as follows:

### Section 403(1)

- (d) property described in class 9;
- (e) property described in paragraph **a** except automobiles, trucks, trailers and buses, paragraph **h**, except camp buildings, and paragraphs **j**, **k**, **l**, **m** and **n** of class 10;

The words "except radar equipment, radio transmission equipment or radio receiving equipment" have been deleted from paragraph (d) so that all of the property described in class 9 is eligible retroactive to and including April 27, 1971.

Automotive equipment included in paragraph (a) of class 10 like fork lift trucks and self propelled combines are now eligible retroactive to and including April 27, 1971. All trucks operating commercially and all other non-commercial trucks of similar nature are not eligible.

Amended tax returns with an amended supplementary return for tax credit will be accepted by the Department from those corporations which have already filed and are affected by the amendments to the Regulation.



Our man Alex in the Special Audit and Tax Investigation Section of the Department of Revenue dropped into the office of the Editor last week. Clutched in his hand was a portfolio of news clippings. Is there some way, he wondered, if the News Bulletin could draw everyone's attention to the fact that his Section has had a very busy year in the Courts. Alex was quick to point out that he didn't want personal publicity but rather, he hoped, the stories might serve as helpful reminders to everyone. We agreed and decided to print the following summary about Court decisions on some interesting tax infractions.

The operator of a small business in the Toronto area was sentenced to one year for falsifying retail sales tax returns involving over \$50,000. . . . in the London area, the president of a heavy equipment company was fined \$17,000 or 11 months on 11 charges of evading retail sales tax payments. The defendant appealed the decision only to have the fine stick and a 10-month jail term added. . . . a television accessory company in the Hamilton area was fined \$7,000 for making false and deceptive statements in sales tax returns. . . . a restaurant and four of its directors were fined a total of \$12,000 in attempting to evade corporations tax. The prosecutor said that the charges were laid after revenue officers observed that "virtually none of the take-out sales at the restaurant were being recorded during business hours". . . . a \$2,500 fine was levied against an equipment rental company for evading fuel oil tax. The owner-president of the firm purchased 55,000 gallons of furnace oil (tax exempt) and used it as fuel for his diesel trucks. . . . and, finally, a Toronto printer, despite a clever set of books and fraudulent invoices, was fined \$3,000 or six months for cheating the government of retail sales tax over a six year period.

I don't think this story needs a concluding paragraph . . . do you?

## FROM THE EDITOR

In the last Bulletin (September 1971) on page 7, a chart showing taxable and non-taxable uses of various fuels contained one proof-reading error. Beside Road Construction, Generation of Electricity and under the Fuel Oils column the wording should read "taxable" rather than "exempt". Sorry about that!

Also in that same Bulletin we advised you of an up-coming promotion for the Province of Ontario Savings Office. We're happy to report that the campaign was a great success. But don't wait for a special invitation to be a depositor. Remember, you earn a high rate of interest per annum on the monthly minimum balance while, at the same time, enjoying chequing privileges.

Finally, from all of us to all of you, warm wishes for a happy Christmas season and the best of good luck in 1972.



A Publication of the Ministry of Revenue



Government  
Print

April, 1975

# tax bulletin

ARTHUR MEEN  
Minister

D. A. CROSBIE  
Deputy Minister

75-2

Queen's Park, Toronto

## budget highlights

Various changes in the bases of the Corporation, Succession Duty, Gift, Gasoline and Fuel taxes, as well as the Retail Sales Tax arise as a result of the budget statement of April 7th, 1975. A separate tax bulletin, No. 75-1, has already been issued on budget items affecting The Retail Sales Tax Act.

The information set out below highlights the most important changes, other than for retail sales tax, being made to give effect to the intent of the budget

statement, to provide the necessary business incentives, to reduce, in some measure, the tax burden and where possible to improve and simplify the tax administration.

Readers are reminded that reference should be made to the appropriate legislation and regulations and information may be obtained from the appropriate Branch, either Corporations Tax, Succession Duty or Gasoline Tax branches of the Ministry of Revenue.



## the gasoline and motor vehicle fuel tax acts

1. Tax at the full rate will remain payable on all fuels used in licensed motor vehicles whatever the circumstances. For the purposes of these taxes, "licensed" means licensed or required to be licensed under The Highway Traffic Act.

Effective April 8th, 1975, in the majority of instances where the net taxes of 8¢ (25¢ less 17¢

refund) and 6¢ (19¢ less 13¢ refund) per gallon was payable under The Motor Vehicle Fuel Tax and The Gasoline Tax Acts respectively, there is full relief from tax.

### 2. Industrial Uses

When diesel fuel is used industrially in stationary engines or unlicensed mobile equipment of any

kind, no tax will be payable by the user provided the user registers with the Gasoline Tax Branch, Ministry of Revenue as an industrial consumer of diesel fuel. The user may elect not to register, but will then be required to pay the full rate of tax and claim a refund.

When gasoline is used for the purposes stated above, the industrial user may claim a tax refund at the full rate instead of as previously, at 13¢ per gallon.

An industrial user operating diesel powered equipment for recreational or pleasure purposes is required to pay tax at the full rate on fuel so used. Industrial uses include manufacturing, processing, road construction and maintenance, building construction, mining, quarrying, production of electricity or other forms of energy, power take-off applications such as cement mixing, drilling and pumping.

### **3. Road Construction and Maintenance**

For many years, all gasoline and diesel fuel used in unlicensed equipment for the construction and maintenance of highways has been subject to tax at the full rate. As from April 8th, 1975, taxes will be refunded at the full rate on fuel so used when purchased on and after April 8th, 1975. Where the contractor is a registrant under The Motor Vehicle Fuel Tax Act, diesel fuel may be purchased tax free, but must be accounted for on a monthly return.

In the case of gasoline and diesel fuel purchased by non-registrants, the contractor may claim a full refund.

### **4. Business Uses**

The rules for industrial uses generally apply. Business uses of both fuels would include fuels consumed in equipment used for commercial fishing, landscaping, maintenance of parks and recreational areas such as ski resorts and golf courses, working boats (not pleasure craft), motor boats operated for profit by businesses where the fuel is supplied by the business and the production of power for the operation of a business.

Where the business has little or no use for taxable diesel fuel, an application for registration may be

submitted which, if approved, would enable diesel fuel to be purchased free from tax instead of paying tax and applying for refund. A monthly return of consumption would be required.

### **5. Institutional Uses**

Diesel fuel used in unlicensed equipment for the purpose of institutions such as hospitals and schools will no longer attract tax.

The institution may register with the Gasoline Tax Branch, Ministry of Revenue in the same manner as an industrial or business user, thereby enabling the diesel fuel to be purchased free from tax. A monthly return of consumption would be required.

In the case of gasoline, the institution may claim a tax refund at the full rate on the use of gasoline in unlicensed equipment.

### **6. Farming**

The present registration system for enabling tax free diesel fuel to be received and used for the purpose of farming will continue. Tax paid on gasoline used for farming will continue to be refunded in full upon submission of a claim.

### **7. Individual Uses**

When a person uses diesel fuel in an engine for the purposes of pleasure or recreation, irrespective of whether or not the equipment is licensed or required to be licensed, tax at the full rate is payable on the diesel fuel so used. Similarly, the full rate of gasoline tax will be payable. Taxes would not apply, however, on fuels used in personally owned equipment such as garden tractors, grass cutting machinery or electrical generators.

An individual may not register in order to obtain tax free supplies of diesel fuel for a non-business use, but must pay the tax as for gasoline and claim any refund to which he is entitled.

### **8. Inventories**

The changes in Motor Vehicle Fuel and Gasoline taxes apply only to those fuels purchased on and after April 8th, 1975. Diesel fuel and gasoline purchased before April 8th, 1975, but used subsequently remain subject to the taxes applicable at the time of purchase.

## 9. Time Limit for Tax Refund Applications

### a. Purchases made prior to April 8th, 1975

Purchases made prior to April 8th, 1975 remain subject to the refund conditions in force at the time of purchase, that is:

**Gasoline** tax refund claims must be submitted within eight months of the date on which the invoices were paid. If submitted later than eight months but within fourteen months, a 10% penalty is imposed. If submitted later than fourteen months from the date of purchase *NO REFUND* will be given.

**Diesel Fuel (Motor Vehicle Fuel)** tax refund claims must be submitted within six months of the date on which the invoices were paid otherwise *NO REFUND* will be given.

### b. Purchases made on or after April 8th, 1975

The *time limit* has been *extended to two years* from the date of payment of the invoice. There will be no refund of tax in respect of invoices submitted later than two years.

## 10. Submission of tax refund applications

Claims should be submitted separately for the period up to and including April 7th, 1975 and for the period commencing April 8th, 1975.

## 11. Liens

Section 17 of The Motor Vehicle Fuel Tax Act provided a lien in favour of the Crown in respect of taxes collectable and payable by a registrant. This section will be repealed.



# the succession duty act

Effective in respect of deaths occurring after midnight April 7th, 1975.

## 1. Increase in Basic Exemption

No succession duty will be payable by any beneficiary where the value of the estate of the deceased does not exceed \$250,000. Previously, no succession duty was payable if the estate did not exceed \$150,000. In addition, an amount of \$250,000 may be deducted in computing aggregate value for any estate in excess of \$250,000 for purposes of determining the rate of tax applicable.

Dependent allowances are not affected, and surviving spouses continue to be completely exempt from the tax regardless of the size of the estate.

## 2. Farmers – Reduction in Period for Forgivable Duty

Succession duty levied on farming assets and payable by farmers will be completely forgiven over a period of 10 years following the death of the deceased, provided that the farm continues to be operated and owned by members of the family. Previously, the period was 25 years.

## 3. Family Business Duty

Succession duty payable in respect of assets in a family business will also be completely forgiven over a 10 year period following the death of the deceased.

Assets eligible for forgiveness of duty are shares in an eligible corporation. An eligible corporation is defined as an active Canadian company, controlled by one family, and eligible for the small business deduction under the Income Tax Act (Canada) in the year in which the death occurs.

In order to qualify, the shares of the eligible corporation must pass to members of the deceased's family. Duty will continue to be forgiven as long as the corporation is controlled by the same family and it remains an active commercial business. Where any of these conditions cease to be met, the balance of any duty together with interest becomes due and payable. However, it is not necessary that the corporation continue to be eligible for the small business deduction under the Income Tax Act (Canada).



# the gift tax act

Effective in respect of gifts made on or after January 1st, 1975.

## 1. Increase in Basic Exemption

Effective for the 1975 and subsequent taxation years, the basic exemption per gift is raised from \$2,000 to \$5,000 for any one recipient in any one taxation year. Similarly, the annual total of exempt gifts is increased to \$25,000 from \$10,000.

## 2. Exemption for Farming Assets

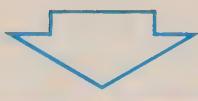
No gift tax will be payable on gifts of farming assets up to a total value of \$75,000, where the gifts are to members of the family who are farmers and intend to continue to use the assets in farming. Previously, the exemption related only to gifts of farming assets up to a value of \$50,000.

## 3. Exemption for Business Assets

No gift tax will be payable on gifts of shares of family businesses which qualify for the small business deduction under the Income Tax Act (Canada), up to a value of \$75,000. — See the third paragraph under the heading of Succession Duty for the definition of family business and other necessary qualifications.

## 4. Other Changes — Removal of Statutory Lien

The lien in favour of the Crown against all property, other than real property, which was the subject of the gift, will be removed effective in respect to gifts made on or after the day The Gift Tax Amendment Act, 1975 receives Royal Assent.



# the corporations tax act

## 1. Oil and Gas Royalties — S.16(1)(o), S.22(1)(n)

Oil and gas royalties payable to a province will not be allowed as a deduction from income.

Effective — income earned after April 7, 1975.

## 2. Interest Income of Financial Corporations — S.16(3)

All financial corporations will be required to report interest income on the accrual basis instead of the cash or receivable basis.

Effective — 1975 and subsequent fiscal years.

## 3. Commercial Vessels — S.17

The deferral of recapture of capital cost allowance on the disposition of a vessel will be extended by one year to the end of 1974.

## 4. Carrying Costs on Undeveloped Land — S.22(3)

Ontario will *NOT* parallel the Federal provision disallowing realty taxes and interest on land held in inventory for resale or development.

## 5. Investment Counsel Fees — S.24(1)(dd)

Investment counsel fees will now be fully deductible.

Effective — 1974 and subsequent fiscal years.

## 6. Financial Institutions — Mortgage Reserves — S.35(1)

Tax-free reserves of certain financial institutions will be reduced from 1½% to 1% on eligible assets over \$2 billion.

Effective — 1975 and subsequent fiscal years.

## 7. Scientific Research Expenditure — S.39(1)

Eligible scientific research expenditure not deducted in a fiscal year may now be carried forward to future years.

Effective — 1974 and subsequent fiscal years.

## 8. Deferred Proceeds from Involuntary Dispositions — S.46

The deferral of capital gains tax or recapture of capital cost allowance in respect of the loss, destruction or expropriation of capital property will be extended by one year. Replacement of such capital property must now be made within two years to qualify for deferral, rather than one year.

Effective — amounts that become receivable after May 6, 1974.

## 9. Cost of Appeals — Unemployment Insurance Act, 1971 — S.58(1), S.60(1)

Corporations will be entitled to deduct the cost of appeals under the Unemployment Insurance Act, 1971. Any awards will be included in income.

Effective — 1975 and subsequent fiscal years.

## 10. Deferral of Income — Grain Delivered to Process Elevators — S.67(4)

The deferral of income until cash is received will be extended to farm corporations which deliver grain to *process* elevators.

Effective — 1974 and subsequent fiscal years.

## 11. International Income — S.84a, S.100a

Ontario will adopt the Federal provisions in respect of foreign affiliates of corporations resident in Canada.

Effective — 1972 and subsequent fiscal years.

## 12. Political Donations — S.100b

Corporations will be allowed to deduct from income earned in Ontario donations made to registered candidates, registered constituency associations or to registered parties up to a maximum of \$4,000 for a fiscal year provided the amount is proven by the filing of receipts. Unclaimed contributions may be carried forward to future years.

Effective — will apply to fiscal years ending after February 12, 1975.

### 13. Small Business Incentive Tax Credit – S.106a

Ontario will increase from \$50,000 to \$100,000 the annual limit to income on which the small business deduction may be claimed. This will increase the maximum annual tax credit from \$3,000 to \$6,000.

Effective – fiscal years ending after April 7, 1975.

### 14. C.I.T. Final Payments – S.148(2)

Final payments of tax will be due two (2) months

after the fiscal year end except for corporations claiming a Federal small business tax deduction whose final payments will be due three (3) months after the fiscal year end.

Effective – fiscal years ending after July 31, 1975.

### 15. Liens – S.167

Lien clearance requests will not be required in respect of any fiscal year of a corporation that commences prior to January 1, 1968.



## capital cost allowances

### 1. Pollution Control Equipment – Regulations

The accelerated write-off of pollution control equipment will be extended for two years commencing January 1, 1975.

### 2. Manufacturing and Processing – New Equipment – Regulations

The accelerated write-off of new machinery and equipment for manufacturing and processing in Canada will be extended to December 31, 1977.

### 3. Capital Cost Allowance – Multiple Unit Residential Buildings – Regulations

Capital Cost allowance on rental multiple unit dwellings started between November 18, 1974 and December 31, 1975 will be allowed to create a loss which can be deducted from other sources of income.

### 4. Timber Limits and Cutting Rights – S.17, Regulations

Timber limits and cutting rights (timber resource property) will be classified as depreciable property eligible for capital cost allowance at a rate of 15%. A gain on disposition in excess of the cost will be treated as an income gain rather than a capital gain.

Effective – timber resource property acquired after May 6, 1974.

### 5. Accelerated Write-Off – Grain Storage Equipment-Regulations

The accelerated write-off for grain storage facilities and grain elevators will be extended indefinitely.

## note

### Federal Bill C-49

With some exceptions, other technical and administrative changes affecting corporations and which are

not specifically mentioned above and contained in Federal Bill C-49 will be paralleled by Ontario.



# Special Tax Bulletin

A26N  
Tax bulletin  
Date: May 3, 1977  
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## SPECIAL NOTICE: 1977 ONTARIO BUDGET

This Bulletin is in addition to previous Bulletins which outlined major tax changes announced in the Budget. Because of the dissolution of the Legislature, tax bills introduced on Budget night have not been passed and, therefore, will be reintroduced in a later session of the Legislature. The purpose of this Bulletin is to provide additional clarification for taxpayers, vendors and collectors concerning the status of the tax changes proposed in the Budget. Specific details concerning each tax are listed below:

### TOBACCO TAX

Gasoline Tax Branch (416) 965-2587/965-6352

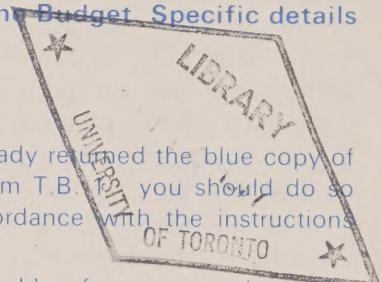
- The Tobacco Tax rate increases introduced on Budget night remained in force for the interim period, April 20, 1977 through April 29, 1977.
- The announced tax increases are withdrawn effective as of April 30, 1977.
- Since these and the other proposed changes will be reintroduced in the next session of the Legislature, the tax rate changes applied only to the interim period April 20, 1977 through April 29, 1977.
- Tax rates in force prior to the Budget announcement will continue to apply after April 29.
- Meanwhile, compensation increases to designated collectors may be claimed at the rate and up to the new limit proposed in the Budget.

### Retailers

Tax paid by consumers to retailers and other agents during the period April 20 through April 29 is held in trust for the Crown. These funds will be collected through the normal procedures by suppliers.

### Inventory as at April 19, 1977

- If the tax related to the inventory taken as at April 19 has not been remitted, then you are not required to forward it.
- If you have already remitted the tax on your inventory, any amount in excess of your collections will be returned to you. A letter explaining what to do will be sent to you in a few days.



- If you have not already returned the blue copy of the declaration "Form T.B. 1977" you should do so immediately in accordance with the instructions on the form.
- Failure to return the blue form means that there will be no adjustment to any excess remittance made to your supplier on his invoices during this period.

### Tobaccos received subsequent to April 19, 1977

- Taxes shown on invoices issued by collectors (suppliers) with respect to deliveries effected during the period April 20 through April 29 must be forwarded to the supplier.
- Adjustments for any over or under remittances will be made in relation to these collections and to the inventory.

### Wholesalers

- Wholesalers who are appointed collectors under The Tobacco Tax Act should not report and pay the tax on their inventory as at April 19.

Procedures for the collection and remittance by the wholesalers of the tax paid by the general public to the retailers from April 20 through April 29 will be mailed within the next few days.

### LAND TRANSFER AND LAND SPECULATION TAXES

Succession Duty Branch (416) 965-1700

- Changes introduced Budget night and outlined in Land Transfer Tax Bulletin 77-1 were to be effective April 20.
- These changes will be introduced in the next session of the Legislature.

- These changes will be retroactive to April 20.
- In the meantime, the existing law and procedures will apply.
- Taxpayers may elect to follow the transitional procedures outlined in Land Transfer Tax Bulletin 77-1.
- Any transaction which is taxable during this time and is subsequently, by virtue of the changes, rendered exempt will be eligible for a refund of tax.

## RETAIL SALES TAX

*Retail Sales Tax Branch Head Office: (416) 965-5772*

- Changes introduced Budget night and outlined in Retail Sales Tax Bulletin 1-77 affected vendor compensation, energy conservation materials, admissions, prepared meals and certain disposable items used in the accommodation industry and were to be effective April 20.
- These changes will be reintroduced in the next session of the Legislature.
- Until changes to The Retail Sales Tax Act are reintroduced, exemption may be allowed on those items proposed in the Budget to be exempt and vendor compensation may be claimed up to the limit proposed in the Budget.

## CORPORATIONS TAX

*Corporations Tax Branch (416) 965-4040*

- Changes introduced Budget night were outlined in Corporations Tax Bulletin 3-77. Most of them were to be effective for fiscal years ending after April 19, 1977.
- These changes will be reintroduced in the next session of the Legislature.
- These changes will still be effective for fiscal years ending after April 19, 1977. The other effective dates indicated in Bulletin 3-77 will remain applicable.
- In the meantime, the existing law and procedures will apply. Adjustments to capital tax to implement Budget changes will be made automatically when the changes become law.

## SUCCESSION DUTY AND GIFT TAX

*Succession Duty Branch (416) 965-1700*

- Changes introduced Budget night and outlined in Succession Duty Bulletin 77-1 and Gift Tax Bulletin 77-1 were to be effective, in the case of Succession Duties for deaths occurring on or after April 20, 1977, and in the case of Gift Tax for the 1977 taxation year.
- These changes will be reintroduced in the next session of the Legislature.
- These changes will be effective on the dates noted above.
- In the meantime, the existing law and procedures will apply.

## MOTOR VEHICLE FUEL TAX

*Gasoline Tax Branch (416) 965-0299*

- Changes introduced in the Budget concerning registration were to be effective July 1, 1977.
- These changes will be reintroduced in the next session of the Legislature.
- A new effective date will be chosen to allow sufficient time for registrants to comply.

## ENVIRONMENTAL TAX

- The new Environmental Tax of 5¢ per can of canned carbonated soft drinks was to be effective June 1, 1977.
- This tax will be reintroduced in the next session of the Legislature.
- A new effective date will be established which will require an inventory to be taken at that time. This date will allow sufficient time for compliance.

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Please note the enclosed statement by the Minister of Revenue. For further information on any of these tax matters contact the Tax Branch indicated.

For Retail Sales Tax information, contact your local Retail Sales Tax District Office, listed in the telephone directory under "Government of Ontario".



